



WALNUT CREEK

MARKET REVIEW

APRIL 10, 2019

JohnCumbelich
& Associates





NORDSTROM

Apple Store

Neiman Marcus

ANTHROPOLOGIE

Crate&Barrel

DOWNTOWN WALNUT CREEK

Q1 2019 RESULTS

Market Review. At the end of Q1, 2019, overall vacancy in downtown Walnut Creek increased from 3.9% to 4.9%, a meaningful jump that reflects a softening leasing market. Notably, the vacancy rate for spaces below 10,000 SF in size also jumped from 5.4% to 7.3% during the quarter.

With an overall market size of 2.67 M square feet, downtown Walnut Creek is generally separated into two sections – the Historic Downtown District north of Mt. Diablo Blvd, and the New Downtown south of Mt. Diablo Blvd.

The New Downtown is characterized by a limited pool of institutional owners (Macerich, Kimco, Essex, Shorenstein, Regency Centers), prominent anchor tenants (Nordstrom, Neiman Marcus, Cinemark, Ross, Cost Plus), abundant parking and low vacancy rates (Q1 2019 = 1.83%).

Meanwhile the Historic Downtown is controlled by hundreds of small owners, a mixed bag of local and regional tenants, sharply lower rents, limited parking and chronic vacancy (Q1 2019= 10.5%).

Changing Supply & Demand Fundamentals.

Over the 2015-2018 period, Macerich completed a massive expansion and remodel of the Broadway Plaza mall. The resulting new first-class retail center swamped the market with 250,000 SF of new first class retail inventory. Macerich induced an array of retailers (H&M, Tommy Bahamas, Apple, Free People, etc) that previously occupied street locations to relocate into the expanded mall. Macerich significantly lowered their asking rents in order to absorb their new space. The results of this flood of supply and softening rents have been painfully felt both by the landlords of spaces whose tenants relocated to the mall as well as the market in general.

Premium Space Vacancies. Spaces such as the former H&M and Chico's stores outside the mall have remained vacant for over two years. Some owners in the Historic District have sat on vacancies for five years. Downtown owners are accepting the realities of a lack of demand on the high end for premium spaces. For example, Regency Centers recently quoted \$25/SF for the 15,000 SF Uniqlo space – a space that would have commanded more than double that amount prior to the mall expansion.

Impacts on 1556 Mt Diablo Boulevard

The subject property is located within the Historic Downtown, on the cusp of the New Downtown. The location is one that is well positioned to capture “mall overflow” demand in strong markets. However, in today's softening environment the space is now surrounded by excellent competing vacancies, such as the former H&M, Apple and Chico's spaces, all of which are in closer proximity to mall anchors, mall traffic and mall parking. Consequently competition for high quality brands that can pay premium rents will be dramatically different now than during the prior cycle when the Z Gallerie lease was consummated.

WALNUT CREEK TRADE AREA Q1 2019

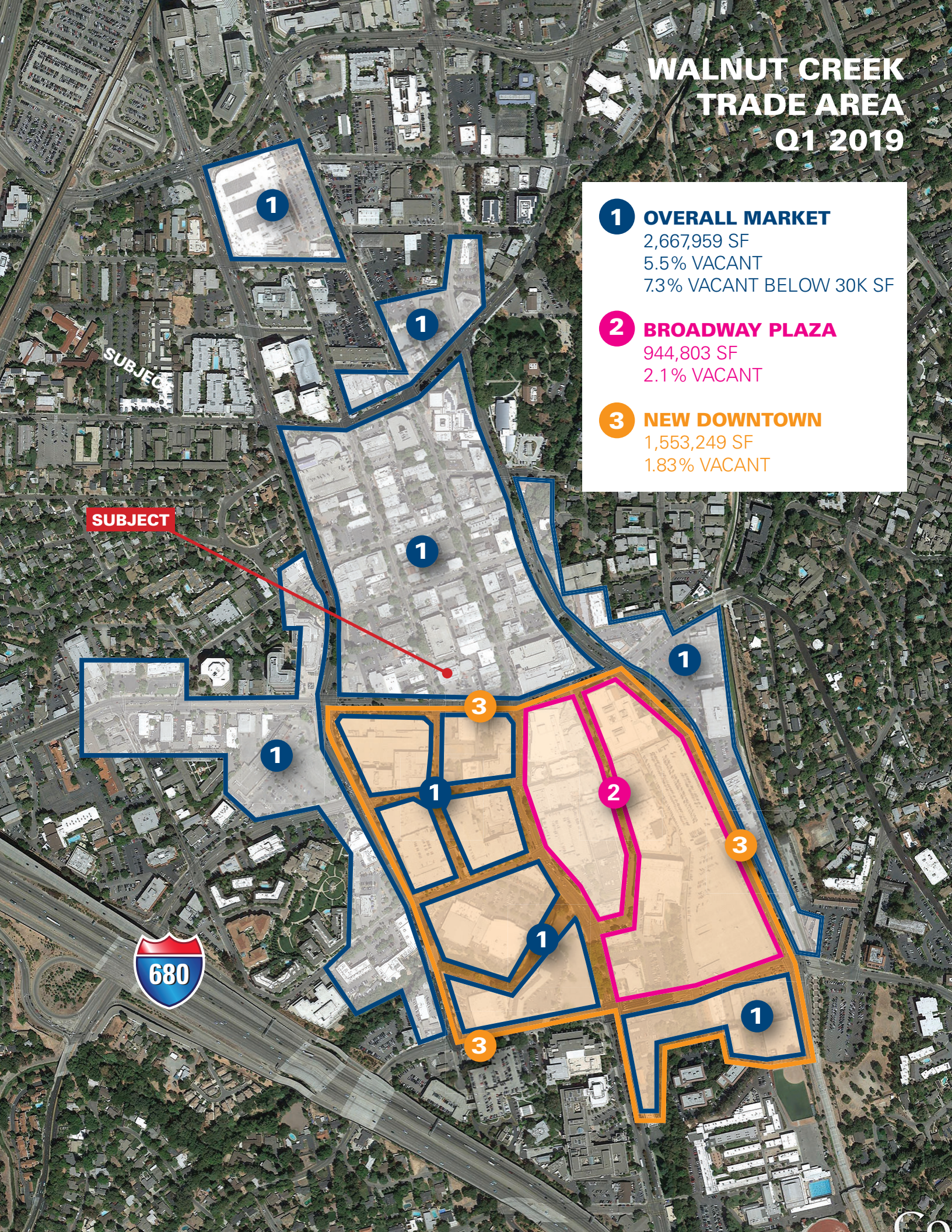
1 OVERALL MARKET
2,667,959 SF
5.5% VACANT
7.3% VACANT BELOW 30K SF

2 BROADWAY PLAZA
944,803 SF
2.1% VACANT

3 NEW DOWNTOWN
1,553,249 SF
1.83% VACANT

SUBJECT

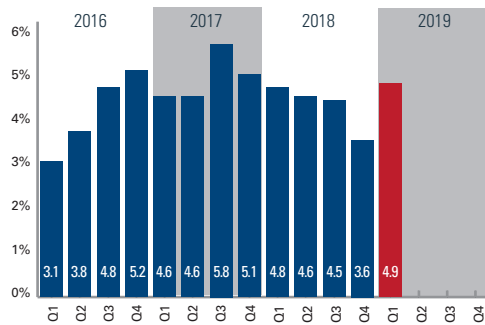
680



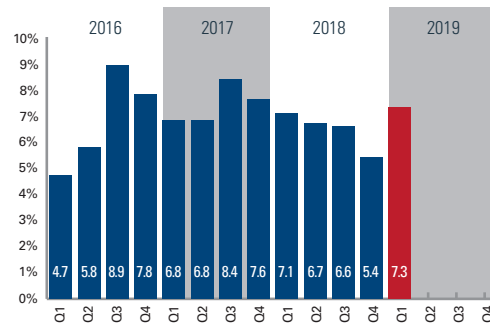
MARKET DATA

SOFTENING MARKET CONDITIONS

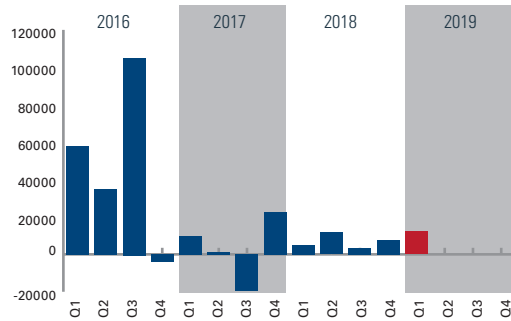
Overall WC Downtown Vacancy Rate



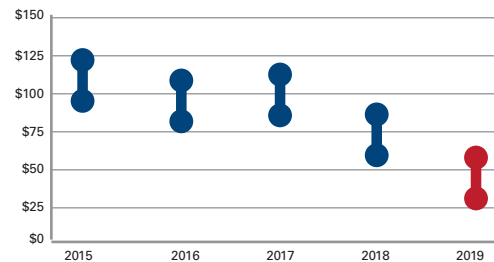
Vacancy Rate Excluding Anchors 30k+ SF



Net Absorption (SF)



New Downtown Rents



Summary. The four tables above reflect three key trends presently affecting the downtown Walnut Creek leasing market:

1. **Vacancy rates** have moved sharply higher during the past quarter as the impacts of over 250,000 SF of new retail space has begun to overwhelm user demand, particularly in premium spaces.
2. While **Net Absorption** in the market was strong through late 2016, both 2017 and 2018 were characterized by low to flat absorption as the market topped out. Occupancy rates have begun to shrink as a result of slowing absorption.
3. **Rents** have been harder hit than occupancy costs over the past eight quarters. Dramatic mark downs of rental rates have been required to secure quality user interest, while those owners that have remained firm at prior rent levels have created a growing inventory of spaces that have been available for over a year, and counting.

The healthy supply/demand balance that characterized downtown Walnut Creek in the years following the Great Recession spurred new development. But the addition of over 300,000 SF of new premium inventory has well outpaced user demand, dampening both rent levels and occupancy rates.



FIRM RESUME

OVER 30 YEARS EXPERIENCE LEASING DOWNTOWN WALNUT CREEK

The Firm has consummated more premium retail sales and leases than every other firm, combined, since 2000.

Among the first-class brands that the firm has secured in Walnut Creek lease negotiations are:

- Apple
- Tiffany & Co.
- Pottery Barn
- Pottery Barn Kids
- Restoration Hardware
- Williams Sonoma
- Tommy Bahamas
- Vineyard Vines
- Paper Source
- Yoga Works
- Pier 1 Imports
- AT&T

The firm has also consummated more restaurant leases than every other firm, combined, including:

- Pacific Catch
- California Pizza Kitchen
- Gott's
- Teleferic
- Prima
- Opa
- Heritage Eats
- Rooftop
- Va De Vi
- Sasa

OVERVIEW

Year Established
2000

Office Location
Walnut Creek, CA

North American Partner Offices
36

COMPETITIVE VACANCIES

HIGH PROFILE RETAIL SPACE AVAILABLE FOR LEASE



1315 N Main Street

Former La Fogata Restaurant

Size: 4,367 SF

Asking Rent: \$90/NNN

Status: Available for 6 months



1401 Mt. Diablo Avenue

Former Chicos

Size: 3,742 SF

Asking Rent: \$100/SF

Status: Available for 2+ years



1259 S Main Street

Current Uniqlo

Size: 13,525 SF

Asking Rent: \$25/SF

Status: Recently dropped asking rent dramatically



1129 S Main Street

Former Apple Store

Size: 9,425 SF

Asking Rent: \$150/SF

Status: Available



JohnCumbelich & Associates

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John Cumbelich & Associates
1330 N Broadway, Suite 200A
Walnut Creek, CA 94596
john@cumbelich.com
www.cumbelich.com

PARTNER **XTEAM**
RETAIL ADVISORS